

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

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TAGS: EFIN, BE, EGEN

SUBJECT: THE PRESENT CREDIT SQUEEZE IN BELGIUM AND ITS
ECONOMIC IMPLICATIONS

REF: BRUSSELS 3906

1. SUMMARY: THE EFFECTS ARE NOW BEGINNING TO APPEAR OF THE
VERY TIGHT CREDIT SQUEEZE IMPOSED ON THE ECONOMY DURING THE
SUMMER BY THE BELGIAN GOVERNMENT. CREDIT IS UNIVERSALLY
TIGHT, BANKRUPTICES ARE UP SLIGHTLY AND UNEMPLOYMENT
(PARTICULARLY OF WOMEN) IS UP A BIT. THE BELGIAN GOVERNMENT
CONTINUES TO STRIVE FOR AN INFLATION RATE (CURRENTLY
14 PERCENT) DOWN NEARER TO THE GERMAN RATE 7-8 PERCENT)
AND TO RELY ALMOST EXCLUSIVELY ON MONETARY POLICY TO DO
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THE JOB. END SUMMARY.

2. THE END OF THE BELGIAN HOLIDAY SEASON HAS BROUGHT OUT A SPATE OF PUBLIC STATEMENTS BY LABOR, EMPLOYERS AND POLITICAL GROUPS EACH OF WHICH HAS CALLED FOR GOVERNMENT ACTION FAVORABLE TO ITS OWN INTERESTS. ONE FEATURE COMMON TO ALL OF THESE STATEMENTS, HOWEVER, HAS BEEN A COMMENT ON THE BELGIAN GOVERNMENT'S USE OF A SQUEEZE ON CREDIT TO COMBAT INFLATION. THIS MESSAGE SUMMARIZES HOW THE BELGIANS ARE USING THAT MONETARY WEAPON AND HOW IT IS AFFECTING THE ECONOMY.

3. THE TINDEMANS/OLEFFE ANTI-INFLATION PROGRAM ANNOUNCED EARLY IN THE SUMMER RESTS TIGHT BANK CREDIT. ALL COMMERCIAL BANKS (AND SIMILAR INSTITUTIONS) HAVE NOW BEEN ORDERED (VIA EITHER THE FINANCE MINISTRY OR THE NATIONAL BANK) TO REDUCE THE ANNUAL GROWTH-RATE OF THEIR LOANS FOR 1974 TO INSURE THEY DO NOT GROW BEYOND 14 PERCENT OVER THE BANK'S 1973 LEVEL. SINCE INFLATION IS NOW RUNNING AT ABOUT 16 PERCENT, THIS MEANS MONEY IS VERY TIGHT. FURTHERMORE, SINCE THE NEW CEILING FOR THE ENTIRE YEAR WAS NOT IMPOSED UNTIL JUNE, THE RULES GOVERNING THE SECOND HALF OF THIS YEAR MAKE MONEY TIGHTER STILL.

4. THE KEY BANK-CREDIT IMPOSED IN JUNE AND IN EFFECT UNTIL OCTOBER 30 PROVIDE THAT: (A) OVERALL LOANS OUTSTANDING FROM COMMERCIAL BANKS AND SIMILAR INSTITUTIONS TO THE PRIVATE SECTOR MAY NOT GROW AT MORE THAN A 6 3/4 PERCENT RATE OVER THE SAME PERIOD LAST YEAR; (B) BANKS WHICH EXCEED THE PERMITTED LOAN CEILING MUST DEPOSIT AN AMOUNT EQUAL TO 30 - 60 PERCENT OF THE EXCESS IN NON-INTEREST BEARING ACCOUNTS; (C) THE AMOUNT OF BANK RESERVES WHICH A COMMERCIAL BANK MUST HOLD IN GOVERNMENT PAPER MUST RISE FROM 41 PERCENT TO 43 PERCENT; (D) \$150 MILLION WORTH OF NEW GOVERNMENT PAPER HAS BEEN SOLD TO BANKS TO STERILIZE THAT MUCH CAPITAL.

5. SPECIALLY TIGHT RESTRICTIONS WERE PUT ON LOANS FOR MORTGAGES, AND ON GOVERNMENT SPENDING ON CONSTRUCTION PROJECTS.

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6. IN THE OPINION OF SENIOR CIVIL SERVANTS IN THE ECONOMICS MINISTRY, THE EFFECTS TO DATE OF THE GOVERNMENT'S EFFORTS TO "CLOSE THE VICE" ON CREDIT HAVE BEEN AS FOLLOWS: (A) BANKRUPTCIES ARE UP SLIGHTLY AND ARE EXPECTED TO RISE IN THE FALL: (B) UNEMPLOYMENT IS UP A LITTLE. (THE JULY, 1974, RATE WAS 2.6 PERCENT FOR MEN AND 6.6 PERCENT FOR WOMEN; IN JULY, 1973, THE COMPARABLE FIGURES WERE 2.6 PERCENT AND 5.5 PERCENT); (C) THE

CONSTITUENCY OF THE MINISTRY OF THE MIDDLE CLASSES (EMPLOYERS OF LESS THAN 50) FEELS IT IS BEARING A DISPROPORTIONATE BURDEN OF THE CREDIT SQUEEZE. (AND, IT PROBABLY IS); (D) THE CONSTRUCTION INDUSTRY EXPECTS A SERIOUS SLOWDOWN AT THE END OF THE SUMMER BUILDING SEASON; (E) THE GOVERNMENT OFFICIALS IN THIS FIELD INTERPRET THE PROTESTS AGAINST THE TAX INCREASES ANNOUNCED IN AUGUST AS "UNEXPECTEDLY MODEST", DESPITE THE OUTCRY IN THE PRESS; (F) THE GOVERNMENT EXPECTS THE INFLATION RATE TO START DECLINING IN SEPTEMBER.

7. THE BELGIAN GOVERNMENT CONTINUES TO BELIEVE: (A) THAT IN ORDER TO REMAIN COMPETITIVE IN WORLD MARKETS, IT MUST DO WHATEVER IS NECESSARY TO GET ITS INFLATION RATE DOWN NEARER THE GERMAN RATE BY THE END OF 1974; (B) THAT, SINCE AN AMOUNT EQUAL TO ALMOST 50 PERCENT OF BELGIAN GNP IS IMPORTED, WORLD INFLATION IS ESPECIALLY SERIOUS TO BELGIUM AND IT FEELS IT ALONE CAN DO LITTLE ABOUT IT; (C) THE TINDEMANS' GOVERNMENT BELIEVES THE ONLY EFFECTIVE AND POLITICALLY PRACTICAL WEAPON IT HAS AT ITS DISPOSAL TO COMBAT INFLATION IS MONETARY POLICY. A FURTHER BUDGET CUT, IT FEELS, IS IMPRACTICAL; IT BELIEVES PRICE CONTROL WON'T WORK, AND A MEANINGFUL TAX INCREASE WOULD BE EITHER POLITICALLY IMPOSSIBLE OR INSELF INFLATIONARY. FIRESTONE

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